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¶1. (U) Introduction: The purpose of this newsletter, initiated in January 2004, is to highlight minerals and energy developments in South Africa. This includes trade and investment as well as supply. South Africa hosts world-class deposits of gold, diamonds, platinum group metals, chromium, zinc, titanium, vanadium, iron, manganese, antimony, vermiculite, zircon, alumino-silicates, fluorspar and phosphate rock, and is a major exporter of steam coal. South Africa is also a leading producer and exporter of ferroalloys of chromium, vanadium, and manganese. The information contained in the newsletters is based on public sources and does not reflect the views of the United States Government. End introduction.

Key

¶2. (U) Key to some of the terminology and abbreviations used is given to facilitate understanding.

BEE (Black Economic Empowerment) - the scheme whereby the South African Government promotes black participation in business.

- t = tons,
- t/d = tons per day,
- c/l = cents per liter,
- t/m = tons per month,
- t/y = tons per year,
- oz = troy ounces (31.1 grams),
- cmg = centimeter grams,
- mcf = million cubic feet,
- tcf = trillion cubic feet,
- R = SA currency (rand),
- MW = megawatts,
- kt = thousand tons,
- bbl/d = barrels per day,
- MW = megawatts,
- PGM = platinum group metals.

HOT NEWS

U.S. Lifts Tariffs on SA Steel

¶3. (SBU) The U.S. International Trade Commission (ITC), an independent agency that protects U.S. companies against harmful imports, has lifted tariffs on hot-rolled steel imports from South Africa. These tariffs were initially imposed in 2001 as a Safeguard Measure to protect U.S. steel companies from low-cost imports. At that time, the global price for hot-rolled steel was below $200 per ton and many of the older integrated steel plants could not compete. The Safeguard Measures were introduced to give the U.S. steel industry a breathing space to re-equip and reorganize to become more globally competitive. A year or so after the measures were imposed, coinciding with the onset of the commodity boom, the price of hot-rolled steel more than doubled. Under the WTO rules, the U.S. must review countervailing tariffs every five years. The tariffs on SA steel were revoked, along with those on steel from Argentina, Kazakhstan and Romania because it was unlikely to cause harm to the local industry.

COMPANIES

Anglo American CEO Spills More Blood

¶4. (SBU) Following the departure of a number of senior executives at AngloGold Ashanti and Anglo Platinum in August/September, reportedly at the behest of Anglo American's new CEO Cynthia Carroll, last week

brought the announcement of a new round of shakeups of the Anglo Platinum board. Anglo American owns a 75% share of Anglo Platinum. According to the announcement, Anglo Platinum's board will be cut to just two members, compared to eight at the end of 2006. Of the eight executive directors at the end of 2006, two have resigned, one has retired and three others have effectively accepted demotions. Since December 2006, 12 non-executive directors have also left the company.

¶5. (SBU) The initial purge of AngloGold and Anglo Platinum CEOs was apparently related to Carroll's demand that they take responsibility for mine safety, following a number of accidents and fatalities at their mines. However, this latest move seems more related to efficiency concerns and the decision to get rid of "dead wood". (Comment. Carroll is an American Citizen and was previously Senior Vice President of Alcan, the Canadian Aluminum giant that has recently been taken over by Rio Tinto. Her efficiency management has resulted in the removal of a number of tiers of senior and middle management. End Comment.)

ENERGY

Eskom Put to the Test and Found Wanting

¶6. (SBU) The inadequacy of South Africa's slim electricity reserve margin of less than 8% has been exposed by significant rolling black-outs around the country. The combination of cold and wet weather, planned maintenance and unexpected outages at a number of power stations, and additional losses allegedly due to wet coal supplies has reduced state power company Eskom's installed capacity by up to 20% since October 9. As a result, Eskom has imposed "load-shedding" (enforced rationing or rolling black-outs) in Pretoria, Johannesburg and other municipal areas to cope with the

generation shortfall. Pretoria neighborhoods, including the downtown office of the Department of Minerals and Energy, have been subjected to hours of unexpected blackouts. Eskom has asked its industrial customers, such as gold mines and operators of aluminum, ferrochrome, and steel furnaces to share the power cuts. It is expected that the power supply deficit will last as long as the inclement weather stays around. Eskom's scheduled maintenance program should be completed by March next year.

Energy Summit Reviews 1998 Energy Policy

¶7. (SBU) The South African Department of Minerals and Energy (DME) organized a two-day Energy Summit (September 24-25) to engage with stake-holders to reassess SA's energy policy as set out in the 1998 Energy White Paper. DME Director General Sandile Nogxina said the energy situation had changed drastically since 1998, therefore requiring scrutiny of all areas of the policy to see whether the assumptions made in its compilation were still valid. The price of international crude oil has jumped from about $10 per barrel in 1998 to more than $85 per barrel today. Additionally, the output capacities of South Africa's oil refineries and Eskom's generators have swung from large surpluses and exports to an inability to keep up with growing demand and the scurry to provide new supply capacity and options. Exports have also been reduced to minimum contractual requirements.

¶8. (SBU) Nogxina emphasized that in a developmental state like South Africa, the role of the State was critical in striking a balance between the interests of capital and national objectives, such as universal access to affordable energy - some 70% of SA households are linked to the electricity grid. Nevertheless, the SAG welcomed private sector participation in energy supply (limited to 30% of new electricity build), as exhibited by the appointment of an AES-led consortium to build two gas-fired power plants with a total capacity of 1,000 megawatts in Durban and Coega. However, Eskom would remain the single buyer of electricity, and as the guaranteed off-take provider would create the environment to attract other independent

power producers.

GOLD

SA Still World's Leading Gold Producer

¶9. (SBU) South Africa's gold production has been in decline for years and it is now producing less gold than it did in 1922. South African gold production was 275 tons in 2006, 296 tons in 2005, 428 tons in 2000, and 1,000 tons in 1970, which represented two-thirds of the world production of 1,500 million ounces in that year. However, the country maintains a slim lead over competitors as these have also seen a decrease in gold output. For instance, U.S. gold output declined from 262 tons to 260 tons in 2006, Australian production fell from 263 tons to 251 tons, Peru production declined from 207 tons to 203 tons, Russian output dropped 4 tons to 152 tons, and Canada's output fell from 118 tons to 104 tons. In total, gold output from these Countries fell by 57 tons or about 1.75 million ounces. Much of this is due to problems that beset the industry in the past and resulted in low prices and low levels of new investment in future production. However, with the price of gold at a 28-year high, new investment is flowing in for exploration and mine expansions.

Deep Gold Mining Fatalities

¶10. (SBU) Thirty-one legal and illegal miners were fatally injured in accidents, fires and rock falls in South African gold mines during the past month. A further 3,200 miners (including 200 women)

were trapped underground at a depth of 2,200 meters for up to 48 hours when a pressurized air pipe in a shaft at a Harmony mine broke loose and fell down the shaft and damaged the shaft infrastructure and severed electricity and communication cables. Ambient rock temperatures at that depth reach 40 degrees C and without proper ventilation and cooling, work is impossible. Fortunately, no injuries were reported in this incident and all miners were safely brought to surface. Included in the thirty-one fatalities were 23 illegal miners who were caught in a fire in abandoned portions of the Harmony's St Helena Mine in the Free State Province. The illegal's gain access to old working places via co-worker compliance or through other shaft systems. They spend weeks at a time underground perilously chipping away at gold ore in shaft and boundary pillars left unmined to stabilize the mine and shafts.

Deep Mining Can Still Be Fatality Free

¶11. (SBU) Despite the above accidents, Africa's leading gold producer AngloGold Ashanti maintains that it is possible to mine at depths exceeding 3,000 and even 4,500 meters without incurring fatalities. Years were spent on a Deep Mine design research project carried out by industry and the State-owned research organization, CSIR-Miningtek, to verify the technical feasibility of mining down to 5,000 meters. The project findings were put on hold because of the low price of gold at the time. However, the current 28-year record high gold price could cause these plans to be dusted off and implemented.

¶12. (SBU) South African gold mines employ more than 200,000 miners, account for at least the same number of jobs in other supporting and service industries and each employee supports another four or five dependents. Annually, the mines pay out billions of dollars in taxes, wages, salaries and procurement of supplies, equipment, research and services, and earn some $5 billion in foreign exchange. Therefore, the answer is not to close the mines, a sentiment endorsed by the unions. Instead, companies like AngloGold Ashanti are aiming to work with labor and government to effect a cultural change that would lead workers to understand the reasons for safety and the need to implement safety regulations.

FERROUS METALS

Nickel Mine to Quadruple Production

¶13. (SBU) South Africa has only one small nickel mine, the Nkomati Nickel Mine, which is located in Mpumalanga Province. Other nickel production is a by-product of platinum mining. Nickel is an essential ingredient in the production of stainless steel and is currently at record high prices. The joint owners of Nkomati are African Rainbow Minerals (ARM), a black-owned South African company, and the Russian miner Norilsk, which is the world's leading producer of palladium, a platinum group metal. The owners have approved a $460 million expansion plan to quadruple the yearly production of the mine to 20,500 tons of nickel and extend the mine life by 18 years, to 2027.

¶14. (SBU) ARM and Norilsk plan to start construction early next year and production could start in the third quarter of 2009. Full production is expected in the first quarter of 2011. In addition to nickel, the mine would annually produce 9,000 tons of copper, and 110,000 ounces of platinum group metals (PGMs). The Nkomati resource is estimated at 904,000 tons of nickel with capacity to produce 625,000 tons ore per month from underground and open-pit mining. The existing 100,000 ton per month concentrator is to be upgraded to take 250,000 tons per month and a new 375,000 ton concentrator will be built, which will provide a total smelting capacity of 625,000 tons per month. The expansion secures 254 jobs and will create an additional 330 new operational jobs and employ

2,000 contractors during the construction phase.
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